

Record No: D2013/179998
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Dr Patrick Walsh
Utilities Commissioner
Utilities Commission
GPO Box 915
Darwin NT 0801

Dear Dr Walsh

**Re: Network Cost Pass Through application
– response to the Utilities Commission's Draft Determination**

Power and Water Corporation (Power and Water) appreciates the opportunity to provide comments on the Networks Cost Pass Through Application Draft Determination, released by the Utilities Commission (the Commission) on 28 March 2013. Power and Water has the following comments and proposed amendments to offer on the Commission's Draft Determination:

1. Capital and Operating Expenditure shortfall

Power and Water is of the view that the Commission should consider the full amount of Power Networks' expenditure that has exceeded that allowed for by the Commission in its 2009 Networks Price Determination, as it impacts on Power Networks on-going commercial viability. In line with the Commission's Draft Determination (section 5.17), Power and Water proposes to include in its initial Regulatory Proposal for the 2014 Networks Price Determination, a submission explaining why it should be permitted to recover the additional expenditure above that allowed for in the 2009 Networks Price Determination and the Cost Pass Through Final Determination.

2. Parsons Brinckerhoff's Report (PB's Report)

Power and Water does not agree with the rejection of a large amount of the additional personnel requested in the Opex Step Changes, as *"excessive for zone substation maintenance needs"* (PB's Report - Review of Capital and Operating Expenses related to the 2009 Network Price Determination Cost Pass Through Application, 26 March 2013, p.22). Power and Water considers that these positions, while not directly related to zone substation maintenance needs, were necessary to achieve a more strategic focus on the asset management function and essential related matters such as operating, safety and training. Also, additional resources were required in the underground and overhead line sections to plan and deliver a robust condition based preventative maintenance program, consistent with the Davies Review recommendations. Please refer to the table in Attachment 1 for more detailed explanation and justification for each position.

Power and Water also does not agree with PB's reduction of the pass-through operating expenditure by the amount of \$9.93 million for the provision of back-up generators is appropriate. The basis for PB's exclusion of these costs is that they *"would have been required to restore power irrespective of the [Davies] report ... the hire and installation of back-up generators is unrelated to the implementation of the recommendations of the Davies report."* (PB's Report, p.23).

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The generators were deployed during the emergency restoration and reconstruction works (including those works recommended by the Davies Review) both to provide security against the further unanticipated failure of deteriorated assets and to safeguard system security whilst the system was operated in a non-standard configuration. The back-up generators were there to provide system security until a temporary switchboard could be commissioned. The cost of providing the back-up generators was thus directly associated with implementing the recommendations of the Davies Review.

Amongst many other things the Davies Review specifically recommended the replacement of unserviceable equipment at Casuarina, involving an extensive sequence of works that was well underway before the finalisation of the review.

3. Cost Pass Through 'C Factor' calculation

With regards to the 2013-14 Cost Pass Through 'C Factor' calculation, Power and Water does not agree with the Commission's use of expected revenue from the 2009 Networks Price Determination, as more recent forecasts are available. Also, Power and Water considers that the actual CPI as per the requirements of the CPI-X price path in the 2009 Networks Price Determination should be used, as this is the CPI that Power and Water must use for its 2013-14 Network Tariffs submission¹. Using Power and Water's forecast revenues for 2012-13 and 2013-14, the actual CPI figure that Power and Water must use for the 2013-14 Network Tariff submission, and the Draft Determination levels of Opex and Capex, the C Factor would be 26.4% (as opposed to 24.4%). Attachment 2 details this calculation and the proposed assumptions.

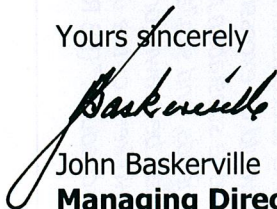
Summary of Proposed Amendments to Draft Determination

If the Commission were to accept Power and Water's proposed revisions to the PB's operating expenditure adjustments, and the proposed amendments to revenue and CPI in the C Factor calculation, the total pass through amount would be \$92.1 million. Attachment 3 details the revised calculation.

Power and Water requests that the Commission consider these proposed amendments to its Final Determination on the Cost Pass Through Application.

Should you require further clarification on the Cost Pass Through Application, please contact Mr John Devereaux, General Manager Strategy and Corporate Affairs, on (08) 8985 7206. Should you require further information on the justification of additional personnel as outlined in Attachment 1, please contact Mr Paul Ascione, Power Networks Group Manager Strategy and Planning, on (08) 8924 5218.

Yours sincerely


John Baskerville
Managing Director
15 April 2013

¹ Power and Water has calculated the CPI for the 2013-14 Network Tariffs to be 1.76%, using the methodology as per that allowed for the CPI-X price path in the Commission's Final Determination for the 2009 Networks Price Determination (p.4, paragraph 2.10).

ATTACHMENT 1 – JUSTIFICATION OF ADDITIONAL PERSONNEL

POSITION	PB'S REASON FOR REJECTION	DAVIES REVIEW LINKAGE	% FTE - MAINTENANCE	% FTE - CAPITAL	SUPPORTING ARGUMENT
2009-10					
Underground Scheduler	<p>"...the resourcing levels claimed by PWC, in our opinion, go beyond the recommendations and intentions of the Davies Report and we are of the view that the additional labour requirements set out in Table 6.11 exceed the reasonable additional labour required to achieve the requirements of the Davies Report.</p> <p>...</p> <p><i>In our view, much of the additional labour set out in Table 6.11 does not have a strong focus on appropriate field resources targeted to the improvement of zone substation maintenance activities, as it provides significant additional capability that is traditionally associated with capital development projects. For example, the six additional staff in the SCADA and telecommunications area would be excessive for the zone substation maintenance needs, and similar conclusions can be drawn for the 4 line workers, or the underground scheduler.</i>" (PB Report, p.22)</p>	<p>The Long Term Action Plan (LTAP) was PWC's direct action plan in response to the Davies Review. This action plan was endorsed by Mervyn Davies and the plan was independently monitored and reported on to the PWC board.</p> <p>The LTAP recognised that the poor maintenance practices did not solely apply to the zone substation category but affected all asset classes. This meant that additional resources were required in the underground and overhead line sections to plan and deliver a robust condition based preventative maintenance program.</p> <p>It also recognised that the asset management function required a more strategic focus with a view for robust reporting on maintenance performance and asset condition. This required targeted roles to ensure works programs were being monitored and the quality of information returning to the asset management team would provide the required asset condition information. The program delivery group was the interface between asset management and the field service groups to ensure this happened.</p>	<p>100%</p>	Schedule and plan preventative maintenance and corrective maintenance tasks	
SCADA Engineer				100%	Required to meet increased capital works requirement as a result of increased awareness of asset condition and a corresponding accelerated asset replacement program
Senior Telecommunications Engineer				100%	Schedule and plan preventative maintenance and corrective maintenance tasks
Planning/Scheduling Officer				100%	
Planning/Scheduling Officer				100%	
Telecommunications Officer				100%	Required to meet increased capital works requirement as a result of increased awareness of asset condition and a corresponding accelerated asset replacement program
Resource Co-ordinator (Opex)				100%	Management role that manages the scheduler/planners to ensure the maintenance program of work is delivered
Network Performance Co-ordinator				50%	To coordinate increased field operations to safely isolate equipment required for maintenance and system augmentation connection requirements
Workplace Health & Safety Officer				50%	With increased knowledge of asset condition, safe work conditions became a significant issue and required expert advice and assistance to ensure the safety of PWC's employees whilst assets were replaced or repaired.

POSITION	PB'S REASON FOR REJECTION	DAVIES REVIEW LINKAGE	% FTE - MAINTENANCE	% FTE - CAPITAL	SUPPORTING ARGUMENT
Admin Officer (1 ACS)			50%	50%	Additional administrative support as a result of additional staffing and increased works reporting requirements
Admin Officer (2 ACS)			50%	50%	
Program Delivery Manager			50%	50%	Managed the relationship between the strategy and planning and the service delivery work areas, for both the maintenance and capital programs of works.
Scheduler/Co-ordinator			50%	50%	Schedule and plan preventative maintenance, capital and corrective maintenance tasks
2011-12					
SCADA & Communications - SCADA Engineer				100%	Required to meet increased capital works requirement as a result of increased awareness of asset condition and a corresponding accelerated asset replacement program
Contracts & Projects - Senior Project Manager				100%	
Program Delivery - Project Manager				100%	Manage and monitor progress of customer connection and augmentation work. This position reported to the Program Delivery Manager.
Program Delivery - Project Manager			100%		Manage and monitor progress of the preventative maintenance and corrective maintenance programs of works. This position reported to the Program Delivery Manager.
Program Delivery - Administrator			50%	50%	Additional administrative support as a result of additional staffing and increased works reporting requirements. This position reported to the Program Delivery Manager.

ATTACHMENT 2 – REVISED 2013-14 'C FACTOR' CALCULATION

UC Required Revenue & C factor calculation

R ₂₀₁₂₋₁₃	115.83
CPI	2.50%
X	-0.85%
g	2.50%
C	24.44%
R₂₀₁₃₋₁₄	152.725

PWC Required Revenue & C factor calculation

R ₂₀₁₂₋₁₃	115.64
CPI	1.76%
X	-0.85%
g	2.50%
C	26.44%
R₂₀₁₃₋₁₄	153.80

ATTACHMENT 3 – REVISED COST PASS THROUGH AMOUNT

Recovery of Expenditure attributed to Davies (\$M)

Year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	TOTAL
Incremental opex	15.3	6.2	10.0	9.6	14.3	9.3	64.8
Incremental capex (return on and of)	0.1	0.5	1.3	2.9	4.7	5.5	15.1
Indexation to 2013/14	1.4403	1.3147	1.2001	1.0955	1.0000	0.0000	
Indexed to 2013/14	22.2	8.8	13.5	13.7	19.1	14.8	92.1